2021 THE MUTUAL FACTOR

How Performance, Structure, and Focus Set Mutual Insurance Companies Apart

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES
AON

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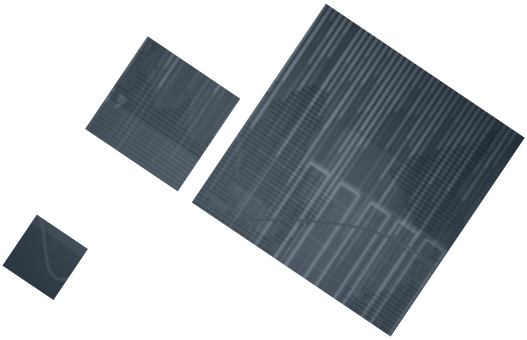
About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement, and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

About NAMIC

NAMIC membership includes more than 1,500 member companies. The association supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies write $313 billion in annual premiums. Its members account for 66 percent of homeowners, 53 percent of automobile, and 30 percent of the business insurance markets.



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FOREWORD

For the past four years, NAMIC has published an annual report on the performance, structure, and focus of the mutual property/casualty insurance industry. With each subsequent year, the report has added new data and new insights to help mutual insurance companies in their ongoing quest to better understand themselves so they can better serve their policyholders.

The release of the 2021 Mutual Factor Report continues in that same approach, once again, providing both an overview of the key performance metrics of the mutual industry in comparison to others in the insurance space, along with new features and insights. NAMIC's three-year partnership with Aon allowed for the expansion of the data used to establish that benchmark. Not only did that partnership enable an analysis of how the updated 2017 AM Best Credit Rating Methodology framework affected mutual insurance companies, it also enabled the expansion of last year's Mutual Factor Report to incorporate 2019 data, as well as an analysis of the first six months of 2020 to preview how mutual insurers are weathering the COVID-19 pandemic.

Once again, with the 2021 Mutual Factor Report, NAMIC and Aon have taken another step toward enhancing the industry's understanding of how its performance, structure, and focus set it apart from other insurance entities. During a year that is likely to be remembered as one of the most significant in history for the insurance industry – between the pandemic and a season of severe storms and wildfires – some lasting performance impact was anticipated. Surprisingly, the data tell a different story. Perhaps what is most surprising about the 2021 Mutual Factor Report tells how similar the industry's performance in 2020 was to previous, less challenging years. The biggest takeaway from this new report is the evidence it provides to support the enduring success of the mutual model and reinforce the value of the long-term approach that is the foundation of the mutual industry.

While last year's report shared insights from mutual industry leaders in response to the pandemic, the 2021 report turns the focus back on a key stakeholder group – the independent insurance agent. The 2021 Mutual Factor Report asks agents to share their perspectives on mutuals in comparison to other insurance companies with some surprising results. Among the topics on which independent agents offered their insights are how mutuals compare to other insurance companies on 13 key criteria, which type of companies serve which demographics best, and what industry issues represent the biggest threat to agents.

NAMIC hopes this valuable insight, along with the important analysis in the 2021 Mutual Factor Report, will help all NAMIC members continue to adapt, innovate, and succeed in the months ahead.

EXECUTIVE SUMMARY OF FINDINGS

The property/casualty insurance industry is a massive and extremely competitive business. With more than $650 billion in premiums written in 2020 there are dozens and sometimes hundreds of insurers competing for policyholders and premium dollars in some markets. Competition breeds diversity in approach to the assessment, pricing, and financing of risk. It is that diversity that is one of the insurance industry's greatest assets and a key driver of the industry's enduring strength in the face of often unforeseeable adversity and innumerable challenges.

The roots of modern insurance originate indisputably with mutual insurers – entities organized for the sole benefit of their members. The understanding that mutual risks could be pooled to benefit all members of the pool is a simple and intuitive concept dating back to ancient times and remains as relevant today as ever. Mutual insurers today compete with other insurers, particularly stock insurers that operate for the benefit of their investors. In recent years, capital markets have sought to play a larger role, particularly in the area of reinsurance.

The different organizational structures within the insurance industry naturally give rise to somewhat different approaches to the management and pricing of risk as well as investment strategies that, in turn, result in differences in operating performance.

The 2021 Mutual Factor Report provides evidence of the overall financial strength and stability of the mutual insurance segment as it relates to market performance. The report looks at some distinctions in the key measures of operating performance between mutual and stock insurers, and the industry overall through June 2021, during 2020, and over a five-year period. In addition, the report analyzes the impact of ratings agency criteria on mutuals and looks at how the mutual industry is perceived by key stakeholders. Nearly 30 metrics are compared across the mutual, stock, and "other" insurer categories. Some of the key findings are as follows:

MARKET PERFORMANCE

In response to the challenges faced by policyholders during COVID-19, we estimated that the industry returned nearly $13 billion in premiums throughout 2020, with mutual insurers returning $6.1 billion mainly through policyholder dividends, while stocks returned $6.8 billion primarily through premium credits.

In Q2 2021, the policyholder dividend ratio for mutual insurers was normalized to pre-pandemic levels of around 1%. Stock insurers' dividend ratios remained flat through the pandemic as they returned money to insureds through premium credits.

Mutual insurers ran at an underwriting loss as a result of their increased policyholder dividend ratio. The combined ratio for mutual insurers for Q2 2021 was 100.3% compared to 95.6% for stock companies, that operated at an underwriting profit, aligning with their focus on returns.

Although there was an increase in losses and loss adjustments (LAE), the growth in net earned premium offset these losses and, therefore, resulted in a slightly lower loss and LAE ratio (70.2%) compared to 2019 (71.0%) for the industry. Mutual insurers recorded loss and loss adjustment expenses of 70.3% of premium for 2020 compared to 72.5% for 2019, and stock companies came in slightly lower at 70.1% for 2020 compared to 70.0% in 2019.

Expense ratios remained consistent year-over-year across all segments of the insurance industry, with the expense ratio of mutual insurers and stock insurers being 27.5% or 27.4% for 2020, respectively compared to 27.1% for both. The expense ratio is similar for mutuals and stocks on a five-year basis as well.

In 2020, the industry hit a record $932 billion in capital and surplus, growing 7.4% from 2019. Mutual insurers grew by 8.3%, while stock companies grew by 6.7%. The growth in surplus was mainly attributed to increase in unrealized capital gains and insurer income form the soaring stock market and declining interest rates. Mutuals' five-year compound average growth of rate 6.6%, which outperform stock companies' five-year surplus growth rate of 6.4%.

The pace of increase in capital and surplus was faster than that of premium growth in 2020, therefore reducing leverage industrywide – and thereby increasing the amount of capital standing behind each dollar of premium written. Mutual and stock insurers had similar leverage in 2020, with $1.40 in policyholder surplus backing up each dollar in net premiums written.

Decreasing and low interest rates remained a challenge for the insurance industry in 2020, with yields on invested assets remaining near 3.0% for mutual and stock companies alike, at or close to their lowest levels since the beginning of the financial crisis in 2008. Yields are slightly lower for mutual insurers, suggesting a somewhat more conservative fixed-income portfolio.

For the mutual segment the five-year average was 4.1% compared to 8.6% for stock insurers. Mutual insurers typically operate with lower returns on surplus, i.e., equity, because policyholders, not external shareholders, are the owners of the company and benefit in other ways from their relationship with insurers, e.g., policyholder dividends and lower pricing.

MUTUAL AM BEST RATINGS

The 2021 Mutual Factor Report includes a study on how mutual companies compare to stock companies under AM Best's Credit Rating Methodology (BCRM). The study includes all rating components throughout the BCRM and, similar to last year's report, shows that mutual insurer ratings compare favorably to ratings of stock insurers. Specific highlights include:

In the first half of 2021, there were a total of 26 companies upgraded by AM Best. Of those, 73% of the companies were mutual compared to stock. The same time period saw only 33% of the 15 downgrades attributed to mutual companies when compared to stock. Mutual companies are well capitalized with median Best's Capital Adequacy Ratio (BCAR) at the VaR 99.6 of 61%, 9 points higher than stock companies at 52%. Eighty-nine percent of mutual companies also have the "Strongest" or "Very Strong" balance sheet strength, compared to 81% for stock companies.

Although 86% of both mutual and stock companies have an "Adequate" or better operating performance assessment, stock companies show 25% higher standard deviation when looking at five-year combined ratio volatility.

Forty-six percent of mutual companies have a "Neutral" or better business profile, compared to 42% of stock companies. Mutual companies also compare better than stock companies in Enterprise Risk Management with 97% scoring "Adequate" or better and 92% of stock companies scoring the same.

INDEPENDENT INSURANCE AGENT SURVEY

The 2021 Mutual Factor Report surveyed 200 independent insurance agents from across the U.S. to assess their perceptions of mutual insurers in comparison to stock and other types of insurance companies.

Specific highlights include:

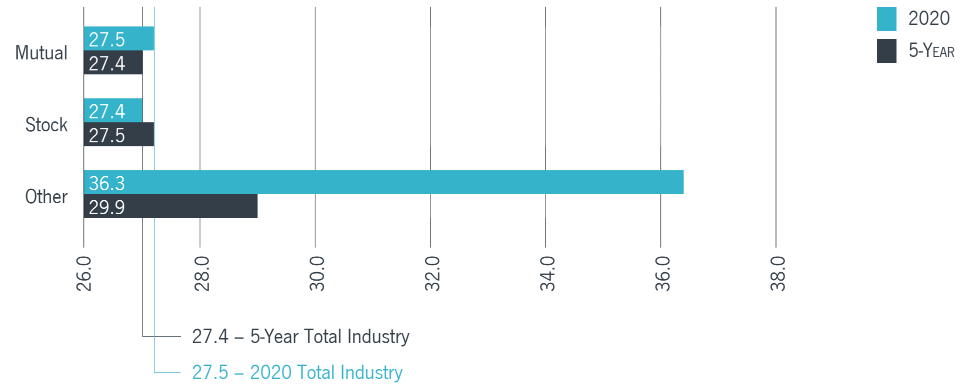
- Mutual companies are perceived as delivering better than other companies on six key criteria used by agents to select insurance companies. Among the criteria in the top tier of importance, mutual companies were rated higher on two key metrics: excellent communications with agents and always settle claims fairly.
- The more favorable perceptions of mutuals among agents translates into positive business for mutual insurance companies, with the share of agents' business among mutuals at 55%, compared to 45% for stock companies.
- Another key finding of the survey is the perception among independent agents that most demographic segments are better served by mutual companies than by stock companies. Agents also believe that some demographic groups – namely millennials, Gen X, urban, and women – are better served by larger mutual companies than by smaller companies.

The survey of independent insurance agents is the third survey among key industry stakeholders by NAMIC as part of the Mutual Factor Report since 2018. Previous customer surveys focused on personal home and auto insurance customers and on commercial insurance purchasers.

THE STATE OF MUTUALS

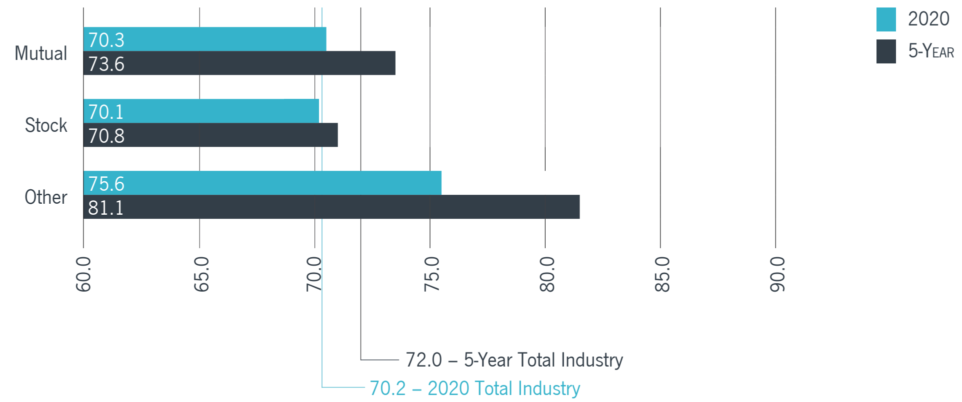
EXPENSE RATIO (%)

The expense ratio of mutual insurers is 27.5%, which is slightly higher than the expense ratio of 27.4% for stock insurers in 2020. However, on a five-year basis the expense ratio for mutuals and stocks are similar at 27.4% for mutuals compared to 27.5% for stock insurers. This suggests that the expense load for mutuals is competitive with that of stock insurers and the market overall.



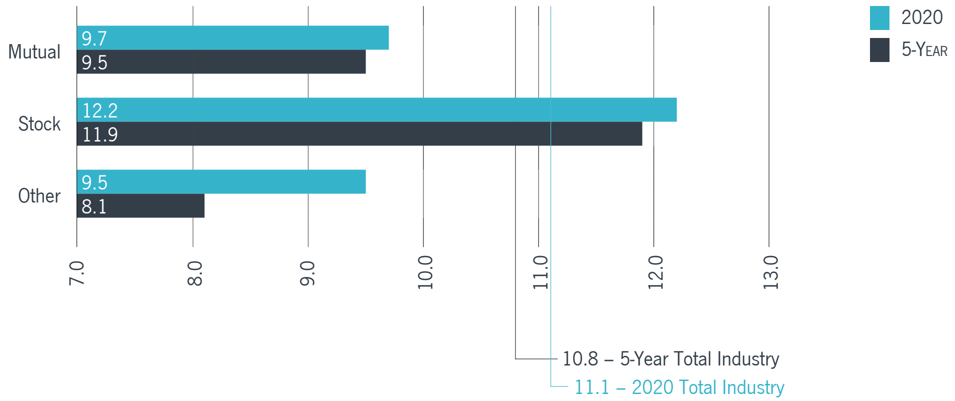
LOSS & LAE RATIO (%)

Mutual insurers typically pay out a higher share of each premium dollar in claims and claim-related expenses, known as loss adjustment expenses, or LAE, than stock insurers. In 2020, mutual insurers paid out 70.3% of each premium dollar for claims and claim-related expenses compared to 70.1% for stock insurers. Results are consistent when evaluated on a five-year basis with the Loss & LAE ratio for mutuals at 73.6% and stocks at 70.8%. The higher five-year Loss & LAE ratio for Other reflects elevated losses from workers' compensation state funds.



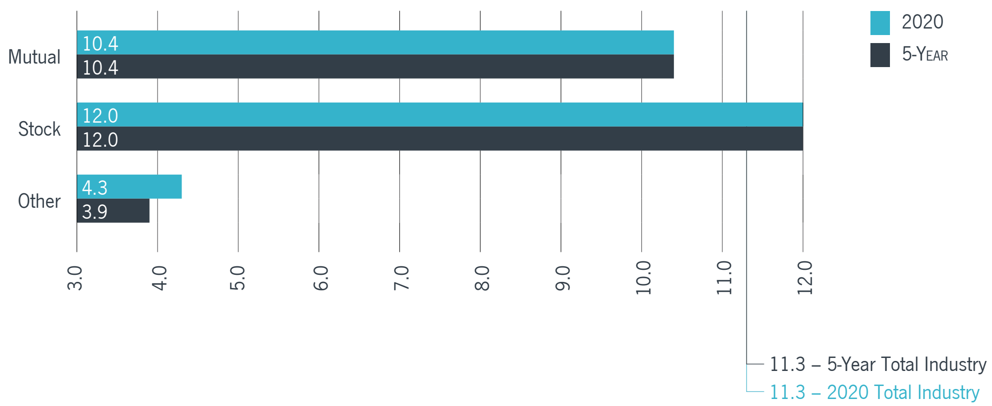
NET COMMISSION RATIO (%)

The commission expense ratio of mutual insurers (9.7%) is 2 points better than stocks (12.2%) for 2020, reflecting the benefit that business mix and type of distribution have on the commission structure for large mutual insurers. Mutuals' and stocks' results are similar on a five-year basis at 9.5% and 11.9%, respectively.



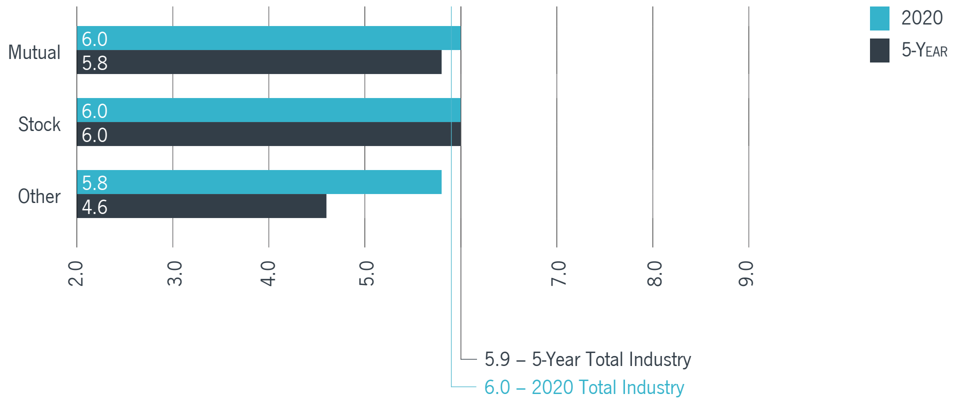
DIRECT COMMISSION & BROKERAGE EXPENSE RATIO (%)

The direct commission and brokerage expense ratio of mutual insurers (10.4%) is modestly better than stocks (12.0%) for 2020, reflecting the benefit that business mix and type of distribution have on the commission structure for large mutual insurers. Five-year results are identical to 2020, with mutuals at 10.4% and stocks at 12.0%.



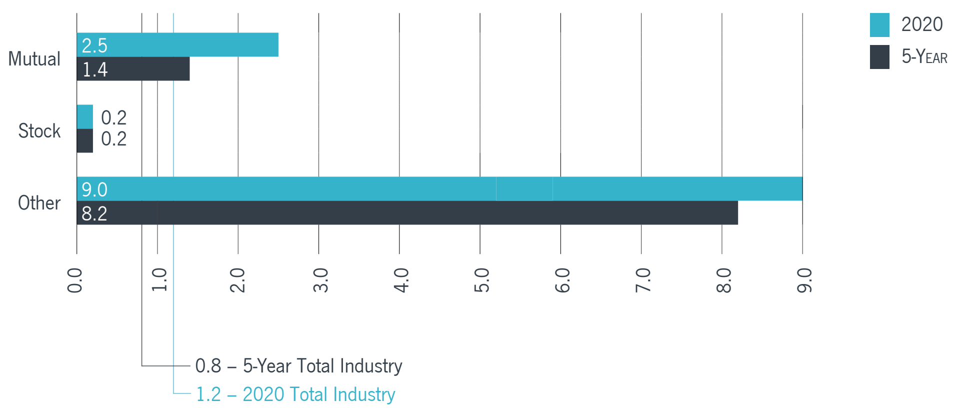
DIRECT GENERAL EXPENSE RATIO (%)

General expenses reflect the cost to the insurer of underwriting and servicing policies. Expressed as a ratio to direct premiums written, this ratio in 2020 was 6.0% for both the mutual insurers and stock insurers. On a five-year basis, the result for mutuals and stocks is similar to 2020 at 5.8% and 6.0%, respectively.



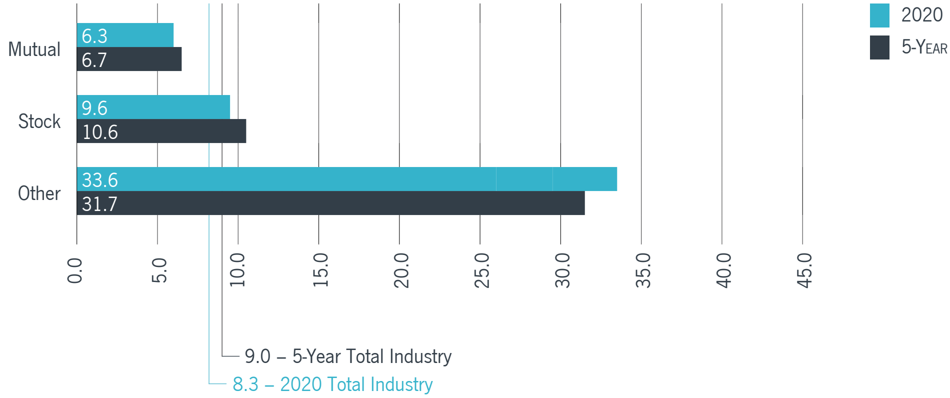
DIVIDEND RATIO (%)

Paying dividends to policyholders is much more common among mutuals than stock companies, reinforcing the fact that mutual policyholders are also the company's owners. However, due to COVID-19, many mutual insurers returned premium to policyholders mostly in the form of dividends through Q2 2020. As such, in 2020, mutual insurers paid dividends to policyholders equal to 2.5% of net premiums compared to 0.2% for stock companies, with the total industry falling within the median at 1.2% for the year. Policyholder dividends are an important customer retention tool for some mutuals and can also represent a reward and incentive for policyholders who file few, if any, claims.



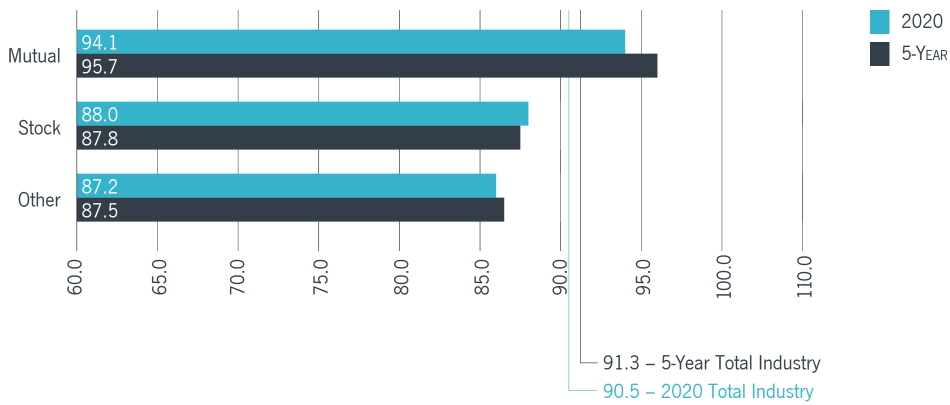
NET INVESTMENT INCOME RATIO (%)

The net investment income ratio for mutual insurers in 2020 stood at 6.3%, below the 9.6% recorded for stock insurers. The same trend can be identified on a five-year average, where the net investment income ratio for mutuals is 6.7%, which is lower than the stocks' 10.6%. The lower figure reflects, in part, the mutual segment's more conservative approach to investing and lower asset leverage. The high net investment ratio for Other is a result of state funds and higher asset leverage to back long-tailed reserves.



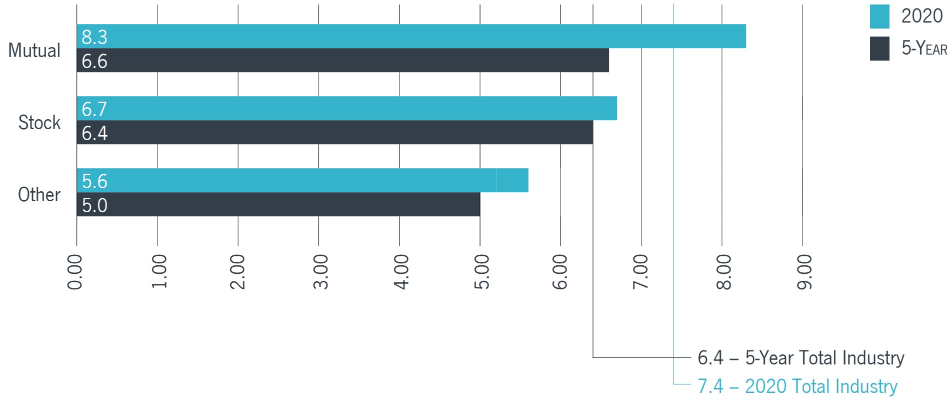
OPERATING RATIO (%)

The operating ratio for mutual insurers in 2020 was approximately 6.1 points higher than for stock insurers. Over the last five years mutual insurers were almost 8 points higher than stock insurers. This emphasizes the combined effects of higher loss and policyholders' dividend ratios and a lower investment income ratio.



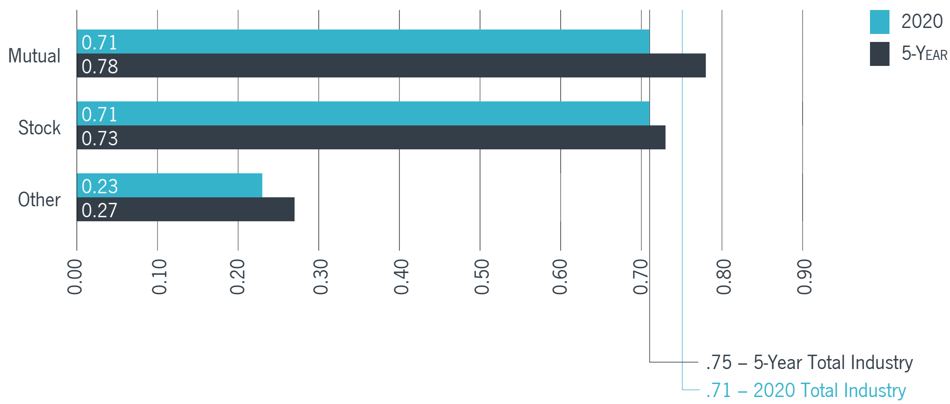
CAPITAL AND SURPLUS GROWTH (%)

Despite volatile market conditions through the first quarter of 2020, capital and surplus growth for the entire industry was 7.4% for 2020, compared to a 14.3% increase from 2019. The mutual segment grew by 8.3% in 2020, and stock companies grew by 6.7%. The last five years showed positive surplus growth for mutuals (6.6%) and stocks (6.4%). This overall growth was very strong by historical standards and occurred despite heavy catastrophe losses.



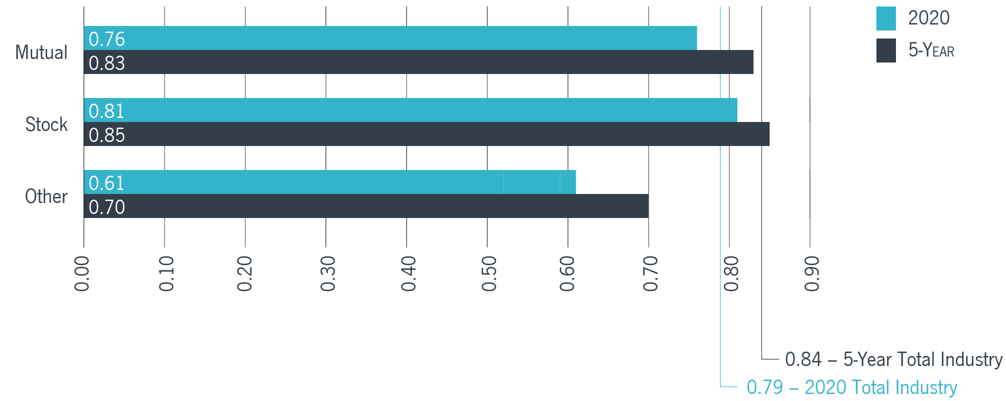
NET WRITTEN PREMIUM TO SURPLUS RATIO

Historically, mutual insurers operate with slightly less leverage than stock insurers. This means that mutual insurers carry more surplus, i.e., claims paying capital per dollar of net written premium. However, recent trends show mutual insurers having similar or slightly higher leverage than stock companies. In 2020, both mutual insurers and stock insurers held $1.40 in surplus for every $1 in net written premiums received. These are identical to the total industry. This suggests that mutuals and stocks carry adequate surplus.



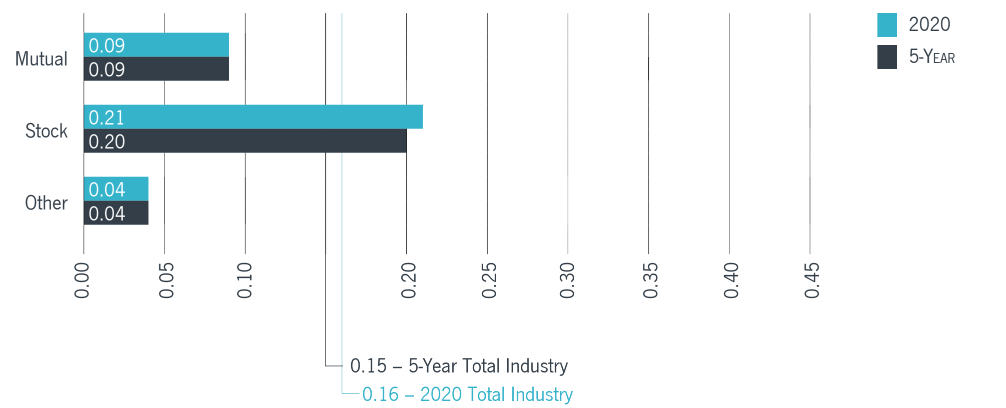
DIRECT WRITTEN PREMIUM TO SURPLUS

Historically, mutual insurers operate slightly less leveraged than stock insurers. However, recent trends show mutual insurers having similar or slightly higher leverage than stock companies. Over a five-year basis, stock insurers held $1.18 per $1 in direct written premium, compared to $1.20 for mutual insurers. Historical trends held true in 2020, with mutual insurers operating less leveraged as they held $1.32 per $1 in direct written premium compared to $1.23 per $1 in direct written premium for stock insurers.



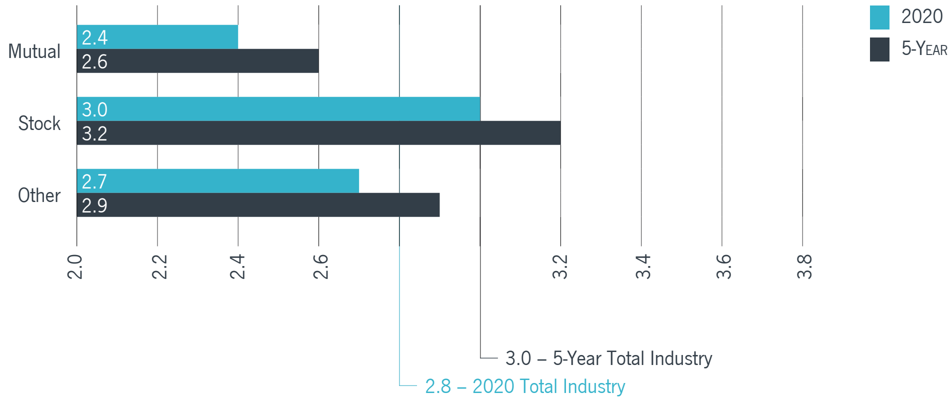
CEDED-TO-DIRECT WRITTEN PREMIUM RATIO

Ceded-to-direct written premium shows how much reinsurance is purchased relative to a company's direct writings. Mutual insurers are ceding under 9% of their direct writings, while stock companies are ceding about 21% for 2020 and 20% on a five-year basis.



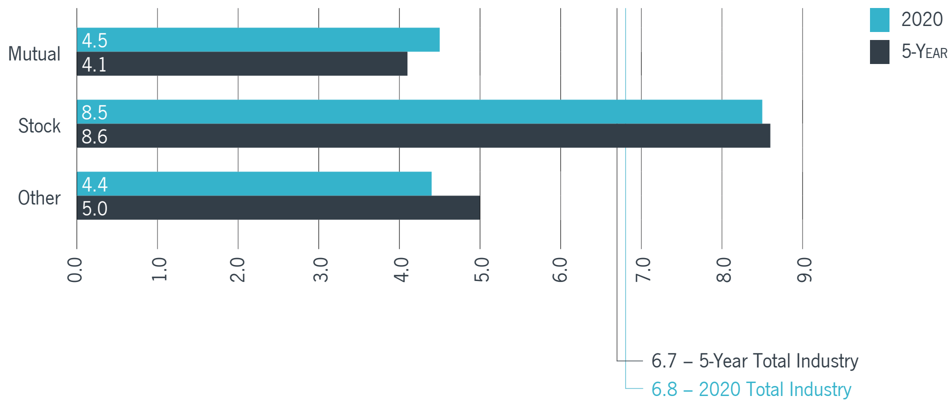
NET YIELD ON INVESTED ASSETS (%)

Persistently low interest rates remain a challenge throughout the insurance industry, with yields on invested assets in the 2.5% to 3.0% range compared to more than 4.5% prior to the onset of the financial crisis in 2008. Federal Reserve rate cuts nudged investment yields slightly downward in 2020.



RETURN ON AVERAGE EQUITY (C&S) (%)

Profitability across the entire property/casualty insurance industry increased in 2020 in large part due to improvements in auto lines as a result of lower vehicle usage during the pandemic. Return on Average Equity (Capital & Surplus) is lower within the mutual segment due primarily to the fact that mutuals paid out a higher share of each premium dollar in claims and claim-related expenses and because they tend to invest more conservatively.



2020 RAW DATA

Aggregate Underwriting Ratios				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	275,010,907	380,628,854	2,760,946	658,400,706
Net Earned Premium ($)	270,743,789	371,939,114	2,686,652	645,369,554
Expense Ratio (%)	27.5	27.4	36.3	27.5
Loss & LAE Ratio (%)	70.3	70.1	75.6	70.2
Dividend Ratio (%)	2.5	0.2	9.0	1.2
Combined Ratio (%)	100.4	97.6	120.8	98.8
Net Investment Income Ratio (%)	6.3	9.6	33.6	8.3
Operating Ratio (%)	94.1	88.0	87.2	90.5

Additional Aggregate Metrics				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	275,010,907	380,628,854	2,760,946	658,400,706
Direct Written Premium ($)	293,537,243	434,302,616	7,322,676	735,162,536
Dir. Commission & Brokerage Exp. ($)	30,548,536	52,324,283	317,711	83,190,530
Ceded Reins: Premiums Ceded ($)	26,284,364	93,171,202	300,735	119,756,301
Gross Written Premiums ($)	299,920,925	494,600,081	7,414,158	801,935,164
Surplus, 2020 ($)	386,577,950	533,004,188	12,013,519	931,595,657
Net Total Assets ($)	856,546,338	1,478,566,391	34,872,260	2,369,984,989
Net-to-Direct Written Premium Ratio	0.94	0.88	0.38	0.90
Ceded-to-Direct Written Premium Ratio	0.09	0.21	0.04	0.16
Ceded-to-Gross Written Premium Ratio	0.09	0.19	0.04	0.15
Net Commission Ratio (%)	9.7	12.2	9.5	11.1
Dir. Com. & Brokerage Exp. Ratio (%)	10.4	12.0	4.3	11.3
Direct General Expense Ratio (%)	6.0	6.0	5.8	6.0
Capital & Surplus Growth (%)	8.3	6.7	5.6	7.4
Net Written Premium to Surplus Ratio	0.71	0.71	0.23	0.71
Dir. Written Premium to Surplus Ratio	0.76	0.81	0.61	0.79
Pretax Return on Revenue (%)	5.6	11.7	8.9	9.2
Return on Average Equity (C&S) (%)	4.5	8.5	4.4	6.8
Return on Average Assets (%)	2.0	3.1	1.5	2.7
Net Yield on Invested Assets (%)	2.4	3.0	2.7	2.8

Source: S&P Global Market Intelligence

FIVE-YEAR RAW DATA*

Aggregate Underwriting Ratios				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	261,491,562	338,275,368	3,026,984	602,793,913
Net Earned Premium ($)	257,487,971	329,992,407	3,005,439	590,485,816
Expense Ratio (%)	27.4	27.5	29.9	27.4
Loss & LAE Ratio (%)	73.6	70.8	81.1	72.0
Dividend Ratio (%)	1.4	0.2	8.2	0.8
Combined Ratio (%)	102.4	98.4	119.2	100.2
Net Investment Income Ratio (%)	6.7	10.6	31.7	9.0
Operating Ratio (%)	95.7	87.8	87.5	91.3

Additional Aggregate Metrics				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	261,491,562	338,275,368	3,026,984	602,793,913
Direct Written Premium ($)	279,831,538	391,097,478	7,886,896	678,815,912
Dir. Commission & Brokerage Exp. ($)	29,047,737	47,039,286	305,236	76,392,258
Ceded Reins: Premiums Ceded ($)	23,851,874	76,920,553	294,780	101,067,207
Gross Written Premiums ($)	285,711,806	440,717,186	7,974,632	734,403,624
Surplus, Five-Year Average ($)	335,811,045	460,560,934	11,220,037	807,592,016
Net Total Assets ($)	762,783,253	1,303,625,992	34,407,571	2,100,816,816
Net-to-Direct Written Premium Ratio	0.93	0.86	0.38	0.89
Ceded-to-Direct Written Premium Ratio	0.09	0.20	0.04	0.15
Ceded-to-Gross Written Premium Ratio	0.08	0.17	0.04	0.14
Net Commission Ratio (%)	9.5	11.9	8.1	10.8
Dir. Com. & Brokerage Exp. Ratio (%)	10.4	12.0	3.9	11.3
Direct General Expense Ratio (%)	5.8	6.0	4.6	5.9
Capital & Surplus Growth (%)	6.6	6.4	5.0	6.4
Net Written Premium to Surplus Ratio	0.78	0.73	0.27	0.75
Dir. Written Premium to Surplus Ratio	0.83	0.85	0.70	0.84
Pretax Return on Revenue (%)	4.1	11.2	10.5	8.1
Return on Average Equity (C&S) (%)	4.1	8.6	5.0	6.7
Return on Average Assets (%)	1.8	3.0	1.6	2.6
Net Yield on Invested Assets (%)	2.6	3.2	2.9	3.0

*Five-year data represents data from 2016 through 2020

TOP TEN MUTUAL WRITERS								
Rank			Group/Company	Direct Written Premium ($000)	Overall Rank			Market Share
2020	2019				2020	2019		
1	1		State Farm	$66,153,063	1	1		9.1
2	2		Liberty Mutual	$36,172,570	5	5		5.0
3	4		USAA	$24,621,246	7	9		3.4
4	3		Farmers Insurance	$23,691,794	9	7		3.3
5	5		Nationwide	$18,499,967	10	10		2.5
6	6		American Family Insurance	$11,338,489	15	14		1.6
7	7		Auto-Owners Insurance	$9,071,833	17	16		1.2
8	8		Erie Insurance	$7,613,519	19	19		1.0
9	10		FM Global	$5,134,211	28	32		0.7
10	9		Auto Club Exchange	$4,468,149	36	31		0.6

Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF PERSONAL AUTO								
Rank			Group/Company	Direct Written Premium ($000)	Overall Rank			Market Share
2020	2019				2020	2019		
1	1		State Farm	$40,397,656	1	1		16.2
2	2		USAA	$15,772,993	5	5		6.3
3	3		Farmers Insurance	$12,198,395	6	6		4.9
4	4		Liberty Mutual	$11,847,079	7	7		4.7
5	5		Nationwide	$5,778,149	8	8		2.3
6	6		American Family Insurance	$5,168,252	9	9		2.1
7	7		Auto Club Exchange	$3,566,844	12	12		1.4
8	8		Erie Insurance	$3,396,043	13	13		1.4
9	9		Auto-Owners Insurance	$3,191,980	14	14		1.3
10	10		CSAA Insurance Exchange	$2,791,291	15	16		1.1

Lines of business for this table include: 19.1 Pvt Pass Auto No-Fault, 19.2 Oth Pvt Pass Auto Liab, and 21.1 Pvt Pass Auto Phys Damage | Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF COMMERCIAL AUTO

Rank 2020	Rank 2019		Group/Company	Direct Written Premium ($000)	Overall Rank 2020	Overall Rank 2019		Market Share
1	1	▶	Liberty Mutual	$1,689,377	4	3	▼	3.7
2	2	▶	Nationwide	$1,659,268	5	4	▼	3.6
3	3	▶	Auto-Owners Insurance	$1,233,088	8	9	▲	2.7
4	6	▲	Erie Insurance	$684,684	17	20	▲	1.5
5	4	▼	State Farm	$679,745	18	11	▼	1.5
6	7	▲	Sentry	$656,742	20	22	▲	1.4
7	9	▲	Acuity A Mutual Insurance Co.	$586,433	23	25	▲	1.3
8	10	▲	Federated Insurance	$560,053	25	26	▲	1.2
9	5	▼	Farmers Insurance	$547,965	26	17	▼	1.2
10	8	▼	EMC Insurance	$534,732	27	24	▼	1.2

Lines of business for this table include: 19.3 Comm'l Auto No-Fault, 19.4 Oth Comm'l Auto Liab, and 21.2 Comm'l Auto Phys
Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF COMMERCIAL PROPERTY AND LIABILITY

Rank 2020	Rank 2019		Group/Company	Direct Written Premium ($000)	Overall Rank 2020	Overall Rank 2019		Market Share
1	1	▶	Liberty Mutual	$13,295,009	2	2	▶	5.1
2	2	▶	Nationwide	$7,362,401	8	8	▶	2.8
3	3	▶	FM Global	$5,131,930	16	15	▼	2.0
4	4	▶	State Farm	$4,114,542	21	20	▼	1.6
5	5	▶	Farmers Insurance	$3,522,891	22	21	▼	1.3
6	6	▶	Auto-Owners Insurance	$2,643,209	27	25	▼	1.0
7	7	▶	USAA	$1,485,502	39	38	▼	0.6
8	8	▶	American Family Insurance	$1,324,985	40	39	▼	0.5
9	9	▶	Erie Insurance	$1,257,193	41	40	▼	0.5
10	10	▶	The Doctors Co.	$1,117,423	43	45	▲	0.4

Lines of business for this table include: 2.1 Allied Lines (Sub), 2.2 Multiple Peril Crop, 2.3 Federal Flood, 2.4 Private Crop, 2.5 Private Flood, 3 Farmowners MP, 5.1 Comm'l Multi Prl (Non-Liab), 5.2 Comm'l Multi Prl (Liab), 6 Mrtg Guaranty, 8 Ocean Marine, 9 Inland Marine, 10 Financial Guaranty, 11 Med Prof Liab, 12 Earthquake, 17.1 Oth Liab (Occurrence), 17.2 Oth Liab (Claims), 18 Product Liability, 22 Aircraft, 23 Fidelity, 24 Surety, 26 Burglary & Theft, 27 Boiler & Machinery, 28 Credit, 30 Warranty, 34 Oth P&C (State) | Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF WORKERS' COMPENSATION

Rank 2020	Rank 2019		Group/Company	Direct Written Premium ($000)	Overall Rank 2020	Overall Rank 2019		Market Share
1	1	▶	Liberty Mutual	$2,210,206	5	5	▶	4.2
2	2	▶	Texas Mutual Insurance Co.	$923,314	17	15	▼	1.8
3	4	▲	CopperPoint Insurance Companies	$569,547	23	26	▲	1.1
4	3	▼	Pinnacol Assurance	$512,025	24	23	▼	1.0
5	5	▶	Erie Insurance	$465,988	27	27	▶	0.9
6	7	▲	Encova Insurance	$458,237	29	31	▲	0.9
7	6	▼	Sentry	$419,446	30	29	▼	0.8
8	8	▶	MEMIC	$394,940	31	32	▲	0.8
9	9	▶	Amerisure	$349,940	35	33	▼	0.7
10	10	▶	Nationwide	$344,419	36	36	▶	0.7

Lines of business for this table include: 16 Workers' Comp and 17.3 Excess Workers' Comp
Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF ACCIDENT AND HEALTH

Rank 2020	Rank 2019		Group/Company	Direct Written Premium ($000)	Overall Rank 2020	Overall Rank 2019		Market Share
1	1	▶	State Farm	$1,015,300	1	1	▶	14.4
2	2	▶	Liberty Mutual	$139,616	13	9	▼	2.0
3	3	▶	Farmers Insurance	$61,101	24	31	▲	0.9
4	4	▶	American Family Insurance	$25,039	36	36	▶	0.4
5	5	▶	Nationwide	$11,549	44	37	▼	0.2
6	6	▶	Sentry	$2,569	48	49	▲	0.0
7	8	▲	Texas Farm Bureau Insurance	$785	54	56	▲	0.0
8	9	▲	Rural Mutual Insurance Co.	$735	55	57	▲	0.0
9	7	▼	Coverys	$707	56	55	▼	0.0
10	11	▲	North Carolina Farm Bureau Insurance	$144	66	68	▲	0.0

Lines of business for this table include: 13 Group A&H, 14 Credit A&H (Grp & Ind), 15.1 Cllct Rnbl A&H, 15.2 Non-Cancelable A&H, 15.3 Grted Renewable A&H, 15.4 NonRnwbl Stated Only, 15.5 Oth Accident Only, 15.6 Medicare Title XVIII Tax Exempt, 15.7 Oth A&H (State), and 15.8 Fed Emp Health Ben | Source: S&P Global Market Intelligence

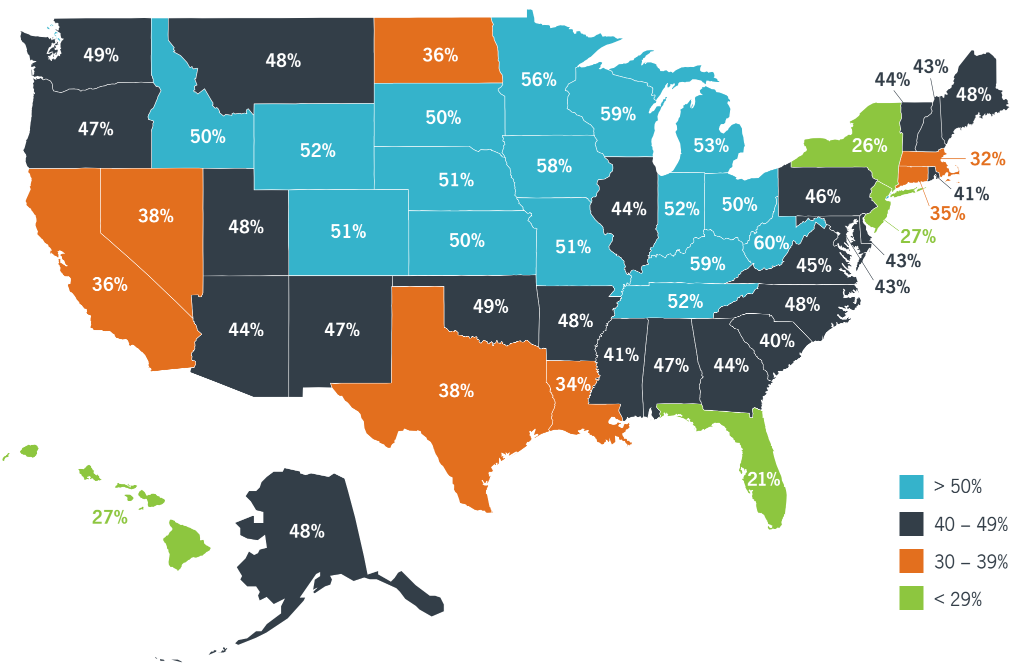
TOP TEN MUTUAL WRITERS OF HOMEOWNERS								
Rank			Group/Company	Direct Written Premium ($000)	Overall Rank			Market Share
2020	2019				2020	2019		
1	1		State Farm	$19,717,032	1	1		17.8
2	3		USAA	$7,362,747	3	4		6.7
3	2		Farmers Insurance	$7,152,993	4	3		6.5
4	4		Liberty Mutual	$6,991,283	5	5		6.3
5	5		American Family Insurance	$4,442,467	7	7		4.0
6	6		Nationwide	$3,344,181	8	8		3.0
7	7		Erie Insurance	$1,809,611	11	10		1.6
8	8		Auto-Owners Insurance	$1,760,659	12	11		1.6
9	9		CSAA Insurance Exchange	$980,648	15	16		0.9
10	10		Amica	$948,950	16	17		0.9

Lines of business for this table include: 4 Homeowners MP | Source: S&P Global Market Intelligence

MUTUAL STATE MARKET SHARE (%)

In 2020, mutuals owned 40% of the property/casualty market in the United States, where the stock and other segments had 59% and 1%, respectively. Stock companies make up most of the property/casualty market nationally, which in part is driven by mutual companies de-mutualizing to stock companies in recent years after legislation to permit this process was passed in many states.

Although the mutual segment has a smaller share of the market compared to the stock segment, the mutual segment has a consistent market share presence throughout the United States. Mutuals have the majority of the market share in 16 states and at least 40% market share in 39 states. The states with more mutual company presence are in the Midwest region of the country. In the five states where the mutual segment's market share is less than 30%, premiums are typically written by larger stock insurers such as Allstate, Travelers, Zurich, The Hartford, and Progressive.



THE DIFFERENCE BETWEEN MUTUAL & STOCK COMPANY COMBINED RATIOS

Mutual insurers have historically operated with combined ratios that are several points above stock insurers. From 2016 through 2020, the average combined ratio of the mutual segment was 102.4 compared to 98.4 for stocks companies. This was true in 2020 as well, with mutual insurers running a combined ratio of 100.4 compared to 97.6 for stock insurers. There are several reasons for this, discussed in turn below.

POLICYHOLDER DIVIDENDS

The overwhelming majority of policyholder dividends are paid by mutual insurers to their policyholders in recognition of their ownership stake in the company. Stock companies pay dividends as well, but generally to their shareholder owners, and they are not included in the combined ratio. The dividend ratio for mutual insurers in 2020 was 2.5% (which was a point higher than prior year end due to COVID-19) compared to 0.2% for stock insurers.

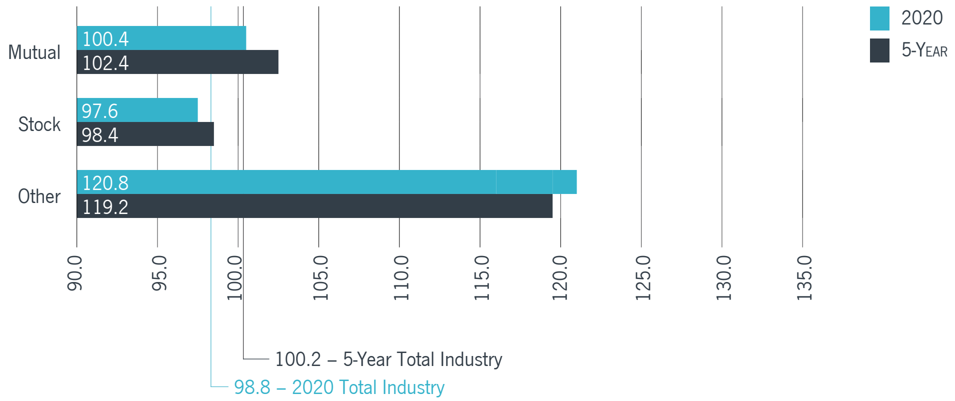
PRICING STRATEGY

Policyholders of mutual companies may also benefit from differences in pricing strategies. Some mutuals, rather than or in addition to the payment of dividends to policyholders, tend to temper the pace of rate increases. This translates into greater price stability and lower relative premiums for policyholders. At the same time, a slower pace of rate increase for mutuals will generally lead to loss ratios and ultimately combined ratios that are higher than those of stock companies. Stock insurers tend to operate in this manner because of their responsibility to maximize returns for shareholders. Mutual insurers over the long run must operate profitably, of course, but with their primary objective being growth of surplus. Consequently, mutual insurers do not generally face the same degree of immediacy with respect to the need to increase rates. This in turn benefits policyholders as the mutual insurer will pay out a higher share of each premium dollar collected from customers.

Note that this does not mean the average cost per claim, i.e., claim severity, is higher for mutuals. It simply means that mutual insurers on average absorb proportionately more losses than stock companies.

COMBINED RATIO (%)

Mutual insurers have reverted to steady, slightly elevated combined ratio after bad catastrophe years in 2017 and 2016. Mutuals' combined ratio for year end 2020 is 100.4, which is lower than what they experienced the year prior. Despite the recent high catastrophe years, mutuals' combined ratio on a five-year basis is at 102.4. In contrast, the stocks' combined ratio is much lower at 97.6 for 2020 and 98.4 on a five-year average. Stocks compare favorably to the industry combined ratio of 2020 (98.8%), whereas mutuals exceed the industry average.

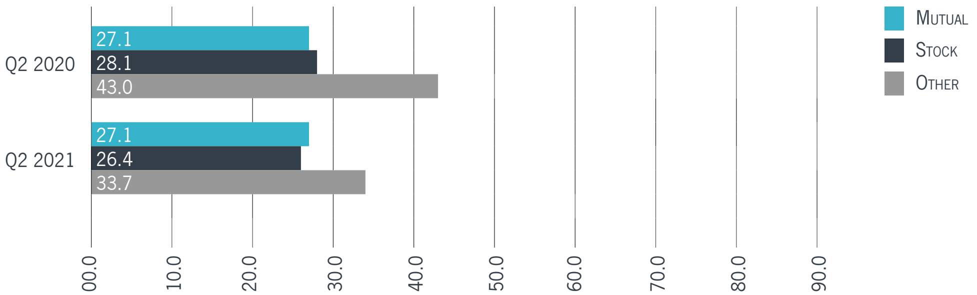


2021 YTD PERFORMANCE THROUGH JUNE

In this section, we review preliminary results from June 2021 statutory financials. While there remains some compilation of group results at the time of this report, over 98% of companies and premium are represented in the analysis below.

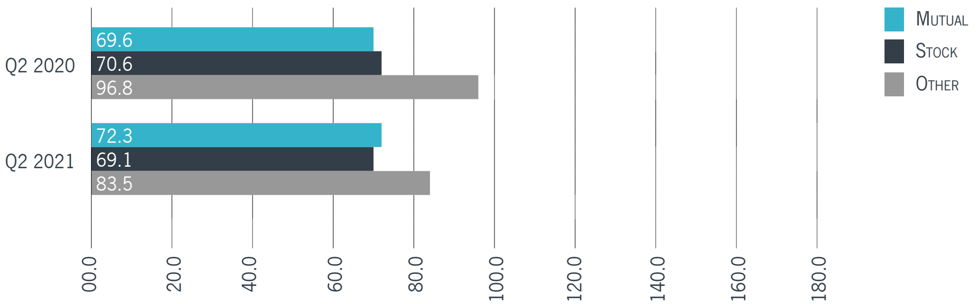
EXPENSE RATIO (%)

Mutuals were able to keep their expense ratio in Q2 2021 flat compared to Q2 2020. Meanwhile, stock insurers improved their expense ratio in Q2 2021, mainly related to an increase in premium as expense dollars were generally flat.



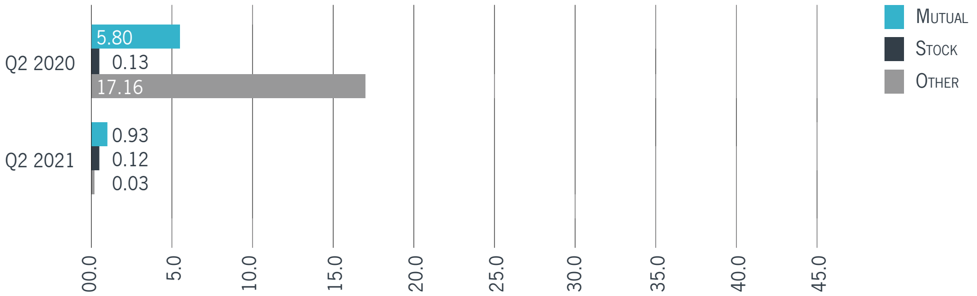
LOSS & LAE RATIO (%)

Loss & LAE ratio in Q2 2021 slightly improved from Q2 2020 for stocks, however mutuals experienced a slight increase over the same time period. Q2 2020 loss ratio for mutuals and stock companies may be artificially depressed due to unprecedented drop in auto frequency from lockdowns in the quarter.



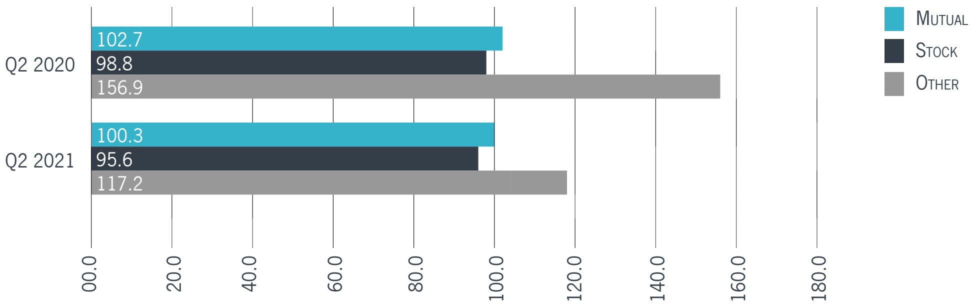
POLICYHOLDER DIVIDEND RATIO (%)

In Q2 2020, we saw clear evidence of increased use of policyholder dividends by mutuals and other non-stock entities to facilitate returning premium to support policyholders during the challenging environment, especially during the early days of the lockdown. As noted previously, stock insurers reduced premium instead of using policyholder dividends. This trend has decreased back down to pre-pandemic levels for Q2 2021.



COMBINED RATIO (%)

Both mutuals and stock insurers saw combined ratio improvement from Q2 2020 to Q2 2021. The Q2 2020 results are artificially increased due to mutuals' return of premium mostly through policyholder dividends, mutuals purposefully increased the combined ratio above 100% into an underwriting loss to 102.7% to pass premiums back to policyholders. Stock insurers implemented similar programs mostly through reducing premium instead of using policyholder dividends.



BENCHMARK STUDY FOR AM BEST RATINGS

OVERVIEW

AM Best continues to be a recognized source of information and commentary on global insurance trends and issues. This rating agency demonstrates expertise, high standards, and sole focus on the insurance industry. As a result, AM Best has emerged as the preeminent rating agency for U.S. insurance companies. Best's Credit Rating Methodology provides a comprehensive explanation of AM Best Rating Services' rating process.

Best's Credit Ratings includes Best's Financial Strength Ratings (FSR), Issuer Credit Ratings (ICR), and Issue Credit Ratings. AM Best uses an array of both quantitative and qualitative measures to analyze rated organizations.

The credit rating process is a continuous dialogue with the rated company's management, which is facilitated by a rating analyst. The rating analyst monitors the rating unit's financial and non-financial results, in addition to any significant developments for each rated entity or issue in their portfolio.

Our benchmark study is based upon 617 U.S. property/casualty companies that have been rated by AM Best under the Best's Credit Rating Methodology (BCRM) framework. The findings consist of groups and unaffiliated single companies. Fivety-two percent are represented as stock companies and 48% as mutuals. Stock companies that are part of mutual group ratings were counted as a single mutual company. Reciprocal exchanges, RRGs, Cooperatives, and Lloyds were counted as mutual companies. The study is a result of Aon's ability to track how mutual companies are rated under the AM Best criteria. This is based upon ratings as of July 8, 2020.

KEY FINDINGS

The BCRM Benchmark study provides deep insight and conclusions regarding how mutuals are rated under the AM Best criteria.

It was found that **86%** of mutual companies are rated "A-"or higher and **94%** have "positive" or "stable" outlook.

The median VaR 99.6 BCAR score for mutual companies is **61%**; 9 points higher than stock companies at **52%**.

89% of mutuals have "Strongest" or "Very Strong" balance sheet strength; compared to **81%** of stock companies.

86%

Mutual and stock companies have similar operating performance assessment distribution with **86%** "Adequate" or better assessments.

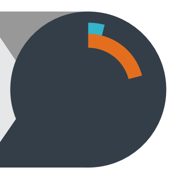
25%

The median 5-year combined ratio volatility highlights that stock companies exhibit **25%** higher standard deviation than mutual companies.

46% of mutual companies have "Neutral" or better business profile versus **42%** for stock companies.

97% of mutuals have "Appropriate" or better ERM assessment compared to **92%** of stock companies.

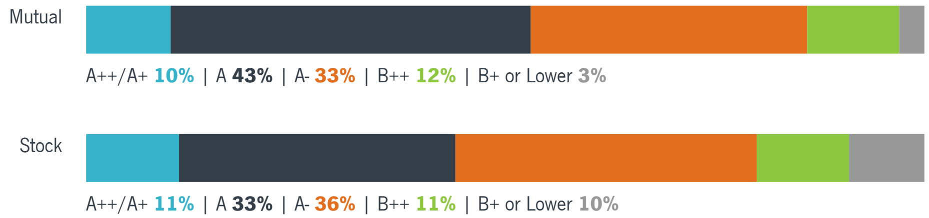
Only **4%** of mutuals receive a rating lift from parent affiliation while **21%** of stock companies depend on this lift



U.S. PROPERTY/CASUALTY COMPANIES RATING DISTRIBUTION

Out of the 617 U.S. property/casualty companies, the majority are either rated "A" or "A-." Slightly fewer mutuals are rated "A++"/ "A+," with 10% receiving the highest rating, compared to 11% of stock companies. However, more mutuals received an "A" rating than stock companies. Forty-three percent of mutuals received an "A" for 2021, compared to 33% of stock companies. It is important to note that 10% of stock companies received a "B+" and lower. This compares to only 3% of mutuals that received a "B+" and lower.

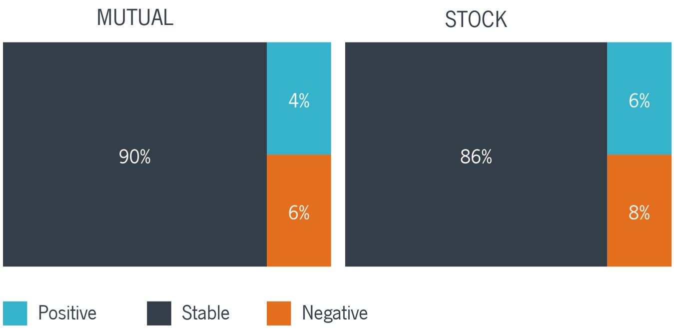
Current Rating



Count: Mutual – 294, Stock – 330

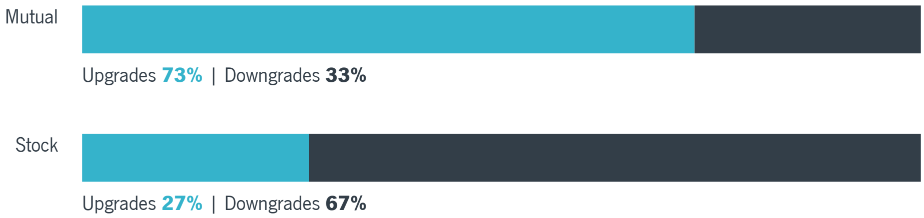
Current Rating Outlook

Recognizing the rating outlook for mutual and stock companies, the majority are perceived to have a stable rating outlook for the following year, with having a stable outlook of 90% and 86%, respectively. Conversely, stocks have more companies that have a positive outlook with 6% compared to mutuals with 4%. Additionally, more stock companies have a negative outlook than mutual companies. Six percent of mutual companies have a negative outlook. However, when compared to stock companies, a larger amount (8%) have a negative outlook. Having a positive or negative outlook does not guarantee rating action.



Rating Action

In 2021, 26 companies were upgraded (73% of mutuals vs 27% of stocks). During the same year, 15 companies were downgraded (33% of mutual vs 67% of stocks). Mutual companies consist of a greater percentage of upgrades than downgrades when compared to the stock companies.

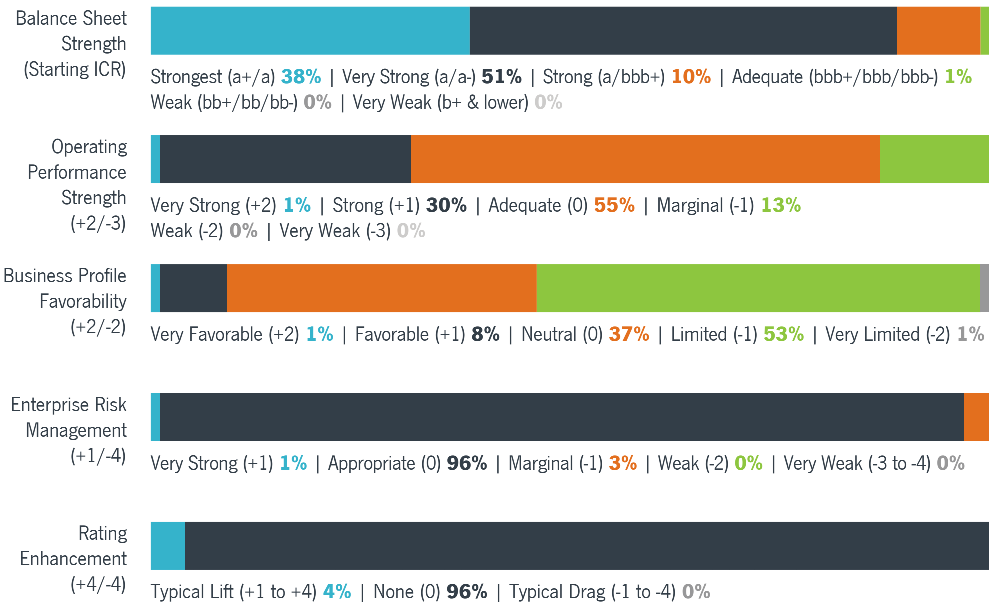


Total: Upgrades – 26, Downgrades – 15

BCRM BUILDING BLOCK ASSESSMENTS

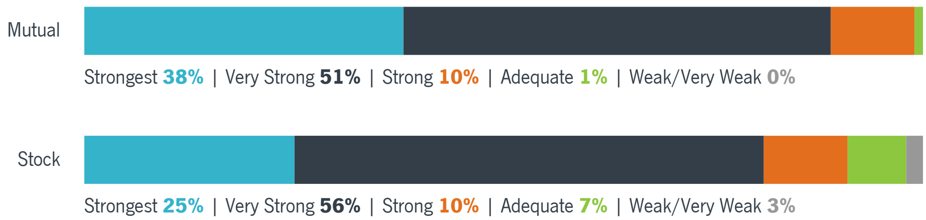
AM Best follows a building block rating approach that assesses individual components and applies positive or negative notching. Balance Sheet Strength sets a base Issuer Credit Rating (ICR) based on the company's BCAR score and other key financial metrics. AM Best will then assess Operating Performance, Business Profile, and Enterprise Risk Management. After these building blocks, AM Best may apply a comprehensive adjustment if there is something unique not captured in the first four categories. Lastly, AM Best may apply a rating enhancement depending on the parent company before determining the ICR. A company's financial strength rating is a direct function of its ICR.

Referencing the U.S. property/casualty Mutual Distribution Building Block Assessment, 51% of mutuals have a "Very Strong" Balance Sheet Strength. This results in an initial ICR of "a/a-." The majority of mutuals receive an "Adequate" Operating Performance. Fifty-three percent of mutuals receive a "Limited" Business Profile. Ninety-six percent of mutuals have "Appropriate" ERM, given their risk profile. Not one mutual has received a comprehensive adjustment. Despite some mutuals having parental affiliation, 96% of mutuals do not receive a rating enhancement. This notching approach would result in a final ICR for mutuals of "a-," with an FSR of "A-."



BALANCE SHEET STRENGTH

Balance Sheet Strength is the first building block in the BCRM. Companies receive a "Strongest," "Very Strong," "Strong," "Adequate," "Weak," or "Very Weak" assessment depending on their BCAR score and other key financial metrics (Leverage, Reserve Development, Reinsurance, etc). The balance sheet assessment provides a range of starting for the analyst to select. Eighty-nine percent of mutual companies receive a "Strongest" or "Very Strong" assessment. Additionally, no mutuals are considered to have a "Weak" or "Very Weak" Balance Sheet Strength.

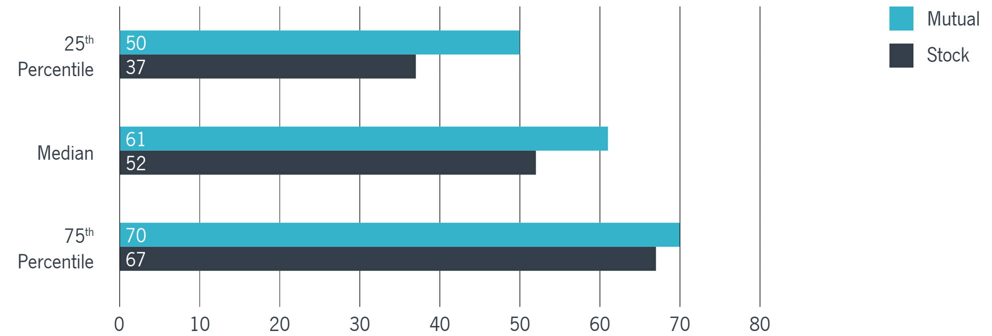


Published BCAR Scores

The primary quantitative tool used to evaluate a company's capitalization is BCAR. AM Best will calculate BCAR at five different confidence intervals (C.I) VaR 95, 99, 99.5, 99.6, and 99.8 with each C.I. using different capital factors that reflect 20-, 100-, 200-, 250-, and 500-year events, respectively. AM Best will run a baseline calculation as well as a stressed, but only the baseline VaR 95, 99, 99.5, 99.6 scores will be published. The scores provide a starting point for the Balance Sheet Strength assessment.

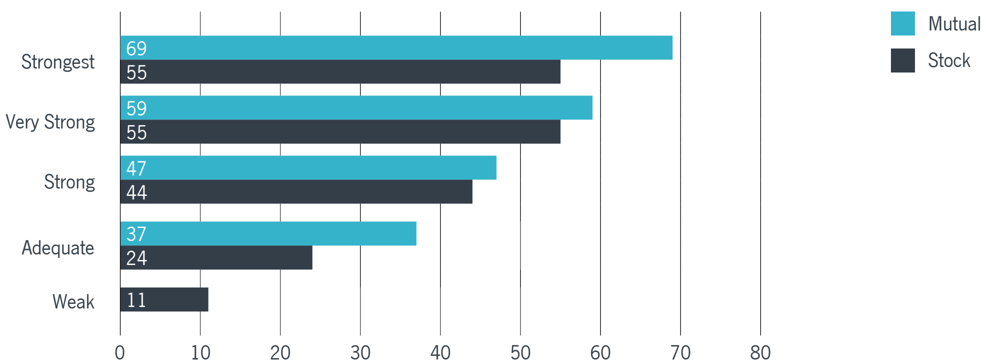
BCAR at VaR 99.6 Percentiles

The most relevant C.I. in the published BCAR output is the VaR 99.6. A company must maintain a BCAR ratio above 10% or 25% to receive a "Very Strong" or "Strongest" balance sheet assessment, respectively. While meeting the BCAR requirement does not guarantee those assessments, most companies are well above the 10% and 25% thresholds. Mutuals at all percentiles maintain a significant higher capitalization compared to stock companies. The numbers below reflect all possible Balance Sheet Strength assessments.



Median BCAR at VaR 99.6 by Balance Sheet Strength Assessment

The median BCAR score for both mutual and stock companies at each Balance Sheet Strength assessment follow a trend that illustrates the two are correlated. Companies with higher BCAR scores tend to receive more favorable assessments. The median BCAR score for stock companies is less than mutuals as stock companies benefit from having more financial flexibility. While the median BCAR score for mutuals with an "Adequate" assessment is higher than some of the other assessments, the limited amount of data points inflates this number. Thus, highlighting the importance of other key financial metrics in the rating process.

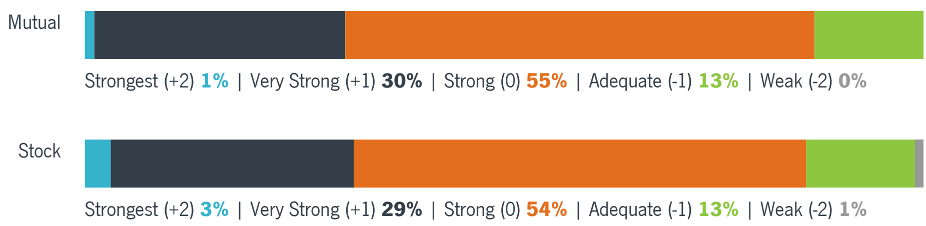


OPERATING PERFORMANCE

Following the Balance Sheet Strength assessment, a company's starting ICR can receive positive, negative, or neutral notching reflective of its Operating Performance. This assessment examines combined ratio, operating ratio, net income, surplus growth, and other performance metrics to determine "Very Strong" (+2), "Strong" (+1), "Adequate" (0), "Marginal" (-1), or "Weak" (-2) notching.

Operating Performance Strength

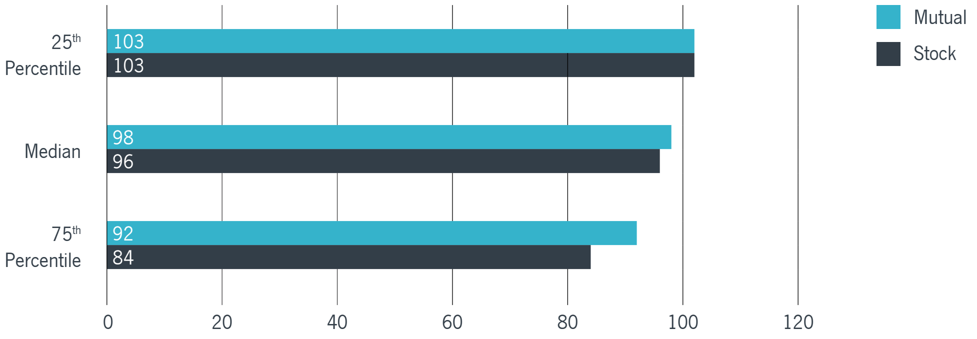
Overall, mutual and stock companies receive similar assessment distributions for the Operating Performance building block. Eighty-six percent of mutual and stock companies do not receive negative notching, while only one mutual receives a "Weak" (-2) assessment.



Combined Ratio and Combined Ratio Volatility 5-Year Percentiles

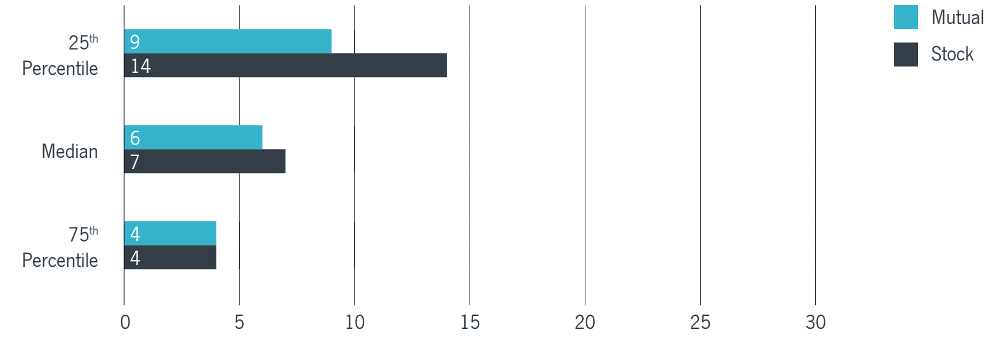
The five-year combined ratio for mutual and stock companies are similar but separate toward the higher percentile. However, mutual companies experience less volatility when examined through all percentiles. The results below reflect all possible Operating Performance assessments.

Five-Year Combined Ratio



Count: Mutual – 294, Stock – 322

Five-Year Combined Ratio Volatility



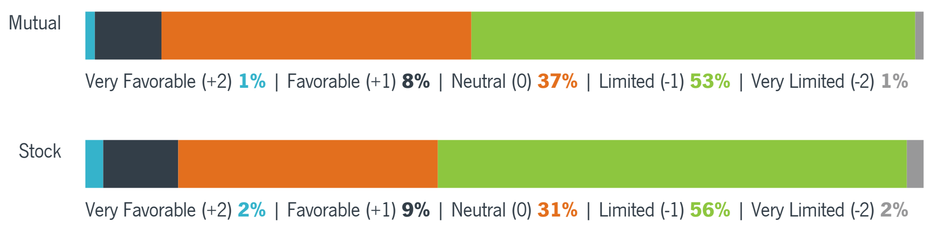
Count: Mutual – 294, Stock – 322

BUSINESS PROFILE ASSESSMENT

After concluding the operating performance review, rating analysts assess the rating unit's business profile. Business Profile factors in the following characteristics: Market Position, Pricing Sophistication, Management Quality, Data Quality, Regulatory & Market Risk, Product Risk, Distribution Channels, Degree of Competition, Product/ Geographic Concentration, and Innovation.

Business Profile Favorability

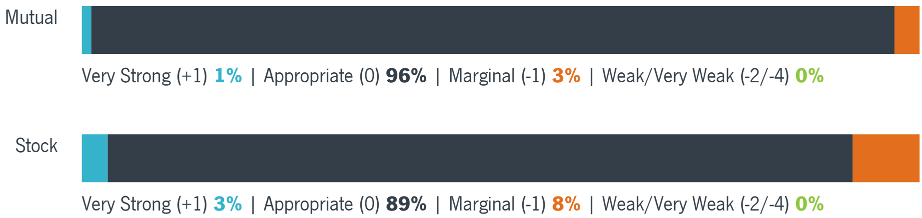
The Business Profile assessment can result in an increase, decrease, or no change in the respective rating. Forty-six percent of mutual companies have "Neutral" or better business profiles compared to only 42% of stock companies. Stock companies are slightly more likely to receive a "Limited" assessment at 56% compared to mutuals at 53%.



Count: Mutual – 294, Stock – 322

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management (ERM) is becoming a more prominent factor in AM Best Rating Methodology. AM Best evaluates ERM on three major fronts: risk management framework, risk management capabilities considering risk profile, and overall strength of ERM. The analysis of ERM can result in either an increase, decrease, or no change in the respective rating. Ninety-seven percent of mutual companies have "Appropriate" or better ERM assessment compared to 92% of stock companies. It is important to note that none of the U.S. property/casualty companies have received "Weak" or "Very Weak" assessment.

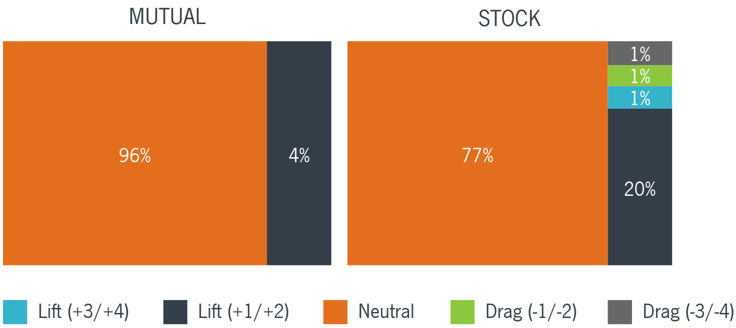


Rating Enhancement

Non-lead rating units that are well-integrated within the organization may receive a notching lift based on implicit/explicit support of the broader organization. Conversely, a non-lead rating unit may be penalized for its association with a weaker holding company and receive a drag. In addition to the Rating Lift/Drag building block, there is also a building block for a Comprehensive Adjustment. Not one company globally in all insurance sectors has received a Comprehensive Adjustment.

Drag/Lift Percentages

Only 4% of mutual companies receive a rating lift from parent affiliation while 21% of stock companies depend on this lift. The rating adjustment can be anywhere from +4 notches to -4 notches. While no mutual companies have received +3 or more lift, not one mutual has received a drag.



RATING AGENCY HOT TOPICS

Looking ahead, the industry's future contains both challenges and opportunities. ESG, COVID-19 impact, catastrophe losses, social inflation and reserve adequacy, and innovation could have an impact on individual ratings and on how rating agencies view the insurance industry overall.

Environmental, Social and Governance

Prominent among current ratings issues is Environmental, Social and Governance (ESG) - a requirement of growing importance to central banks, rating agencies, regulators, and shareholders alike. ESG risks for insurers include climate change, stress test failures, liability risks such as product liability, social inflation, data privacy, and corporate governance - and the consideration of ESG factors alongside financial factors in the investment and underwriting decision-making processes.

A key and very broad ESG related challenge is climate change risk that was a main focus across the re/insurance sector at mid-year renewals. About 42% of public companies tracked for Aon's Cat Risk Tolerance Study include a climate change financial disclosure as of YE 2020.

COVID-19 Impact

For 2021, the opening economy is expected to return exposures in most lines of business to pre-COVID levels and it is important for insurers to be proactive on pricing trends. Conversely, rising infection rates attributed to the delta variant and a slow-down in vaccinations brings uncertainty for government mandated restrictions. There is a lot of uncertainty, specifically around unresolved litigation which will impact reserving and ultimate losses (which is currently estimated at $37 billion-$60 billion). The full impact of COVID-19 will not be realized for some time.

Catastrophe Losses

The U.S. industry losses for YE 2020 totaled $74 billion, which is the second highest of the decade. This, along with recent large wildfire losses, has brought model performance, pricing, and reinsurance cost/needs to the forefront of rating agencies. Insurers and rating agencies have begun to revisit management's "View of Risk" to ensure the models they are relying on reflect the actual exposure the company has. There were at least seven separate billion-dollar events in 1H 2021, all but one of which were weather-related. The costliest event, by far, was the polar vortex-induced prolonged period of extreme cold in the United States. This event was expected to continue showing loss development for months to come. Additionally in Q3 2021, the US weathered Hurricane Ida which is expected to have significant losses (which is currently estimated at $18 billion-$25 billion).

Social Inflation and Reserve Adequacy

Social inflation is impacting current year's losses and prior year's reserves as the trend of increased litigation and higher jury awards continue. Moreover, this trend has raised concerns for the adequacy of loss reserves for commercial segments due to the long-tailed nature of these lines. Although the industry has reported over $7 billion in reserve redundancy for YE 2020, more companies are reporting adverse development than in prior years. This has created substantial capacity for LPTs, allowing for new capital solutions in the market.

Innovation

AM Best's final innovation criteria took effect in March 2020. After one year, innovation assessments have slightly decreased overall, with 26% of U.S. property/casualty companies scoring "Significant" or higher. Although there has still been no significant impact on ratings due to the innovation assessment, insurers will need to prove that their operations have significantly improved due to the invested time and resources put into innovation. The COVID-19 pandemic was a test that highlighted those insurers that can quickly adapt. Rating agencies and regulators will be watching to see which companies can maintain the innovative changes and how they will impact future results.

INDEPENDENT INSURANCE AGENT SURVEY

Mutual insurance companies are dedicated to understanding stakeholders and being responsive to their needs. That's why in 2018, the National Association of Mutual Insurance Companies instituted a series of annual surveys among key industry stakeholders to add a new dimension to the association's newly created Mutual Factor Report on the performance of mutual insurance companies.

Since then, NAMIC has conducted surveys with individual buyers of auto and home insurance (2018) and commercial lines buyers (2019). In 2020, in light of the unusual circumstances stemming from the COVID-19 pandemic, NAMIC conducted a special qualitative study among mutual insurance thought leaders about the industry's response to the pandemic and key future challenges. In 2021, NAMIC returned to another key stakeholder group, this year conducting a survey among independent insurance agents to ascertain their perspectives on how mutuals compare to other insurance companies.

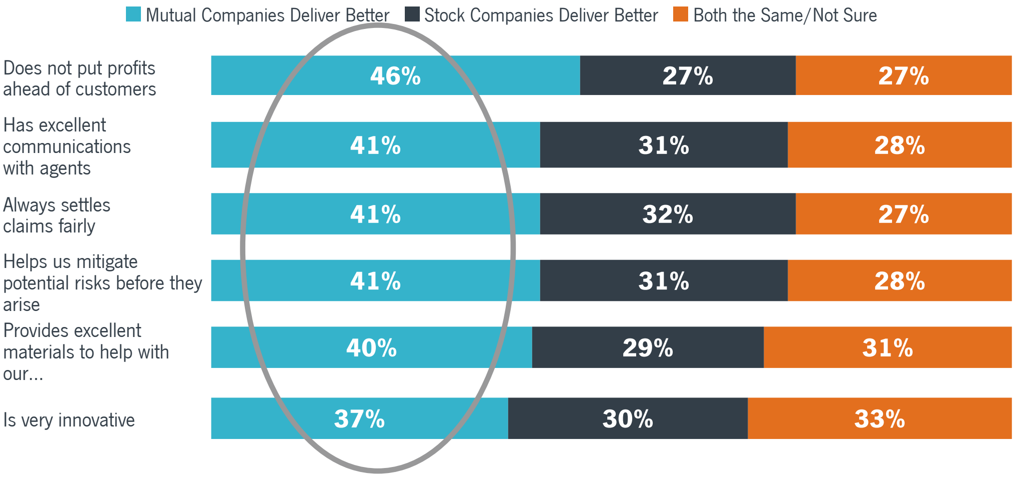
This 2021 independent agent research is based on an online survey of 200 independent insurance agents drawn from national online B2B databases. Interviews were conducted from July 6 to July 19, and on average, required approximately 12 minutes to complete. All completed interviews were tabulated and analyzed by John Gilfeather & Associates. For comparisons between perceptions of mutual and stock companies and between smaller and larger mutual companies, differences of +/- 7 percentage points or more have been highlighted as meaningful.

THE MUTUAL DIFFERENCE

The survey focused on 13 criteria related to the insurance agent/carrier relationship. Agents' most important selection criteria for recommending insurance companies revolve around claims, stable pricing, direct communications, financial stability, digitization, mitigation of potential risks before they arise, and helping agents identify new risks. Criteria deemed important but less so included performance during the pandemic, innovation, providing excellent communication materials, not putting profit ahead of customers, having the best incentive offerings, and being socially responsible.

Two key conclusions emerged from this research among independent agents. The first is that, on many dimensions, independent insurance agents' perceptions of mutual insurance companies are more favorable than their perceptions of other insurance companies. Second, and more importantly, these more favorable perceptions translate into business performance. Mutual companies' share of agents' business is 10 percentage points higher than stock companies.'

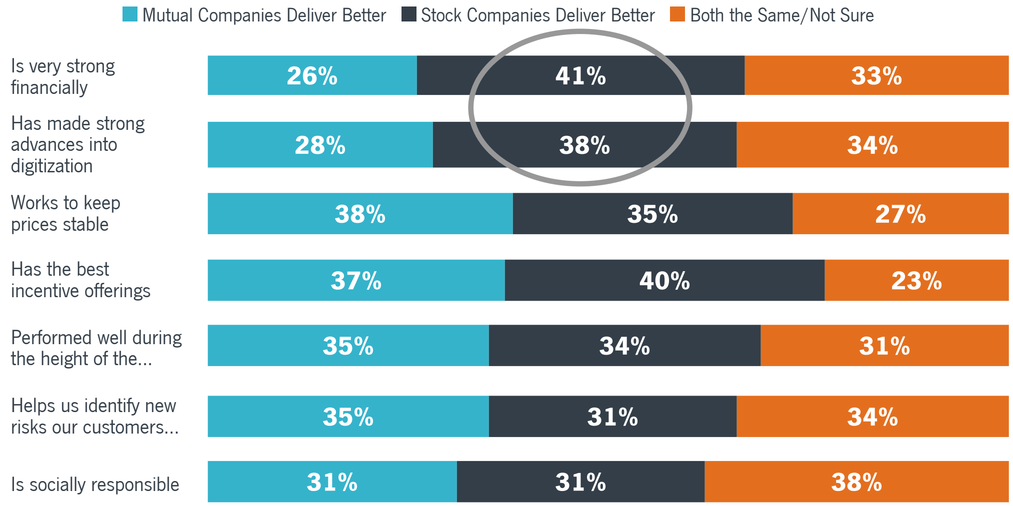
Agents say mutual companies outshine stock companies on six of the 13 selection criteria.



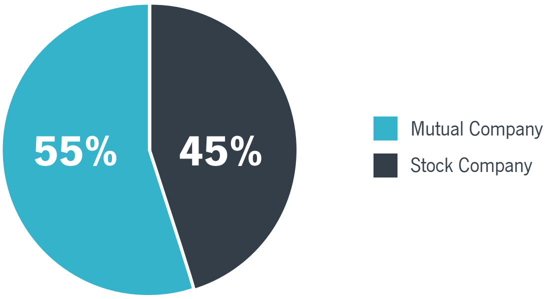
Mutual companies deliver better than stock companies on six criteria used by agents to select insurance companies. Two of these are in the top tier of importance: Excellent communications with agents and always settles claims fairly. Four of the criteria are in the second tier of importance. They are:

- Does not put profits ahead of customers
- Helps us mitigate potential risks before they arise
- Provides excellent materials to help with our communications with customers
- Is very innovative

On the other hand, other insurance companies are seen as delivering better than mutual companies on two criteria – both in the top tier of importance. Those criteria are strong financially and has made strong advances into digitization. Of the remaining criteria, mutuals and other insurance companies are comparable.



These more favorable perceptions of mutual companies have positive business implications. Mutual companies' advantages over stock companies translate into business results: Agents write more business with mutuals than with stock companies. Specifically, the survey findings show that mutual companies share of these agents' business is 55%; this is 10 points higher than other companies' share, which is 45%.



When agents are explaining the benefits of mutual companies to customers, they emphasize the mutual concept – that mutual companies are owned by and operated for their policyholders. And they explain the three key benefits of this:

- Mutual companies put the customer first, which results in excellent customer service;
- Mutual companies have favorable pricing, including dividends returned to policyholders; and
- Mutual companies are known for their fairness in claims settlements.

There are some key differences among independent agents when it comes to demographic segments, and which are seen as better served by mutual companies than by other insurance companies. Agents believe most demographic segments are better served by mutual companies than by stock companies. The exception: wealthy customers.

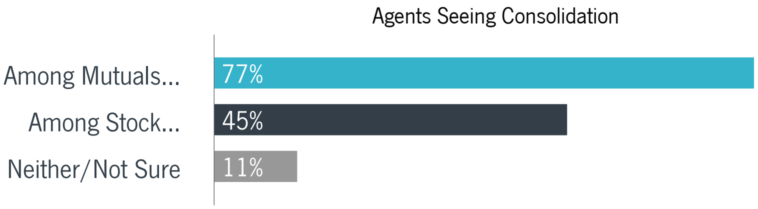
	Better Served By:		
	Mutual Companies	Stock Companies	Mutual Advantage
Gen Z	49%	37%	**+12**
Millennials	40%	44%	-4
Gen X	51%	35%	**+16**
Boomers	49%	33%	**+16**
Wealthy	36%	46%	**-10**
Middle Class	35%	47%	**+12**
Lower Income	50%	34	**+16**

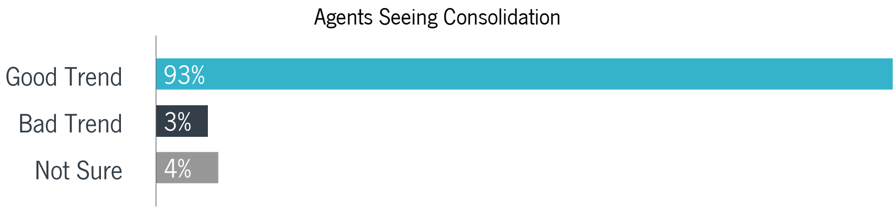
Agents also believe there are some demographic groups that are served better by smaller mutual companies than by larger mutual companies. These include Gen Z, lower income, rural, and minority segments.

Other Issues Explored

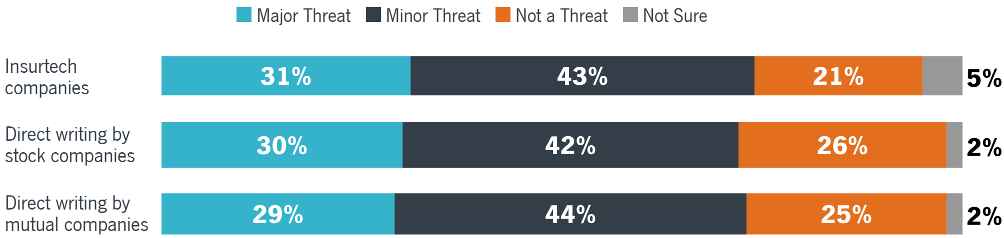
When it comes to more tactical or operational issues, agents believe their agencies are well above average or above average in terms of their advancement in digitization. Eighty percent of agents view their agencies as well above average, or above average, in terms of advanced in digitization, while only 2% consider their agencies below average.

Agents also more often see accelerated consolidation among mutual companies than among stock companies. Either way, consolidation is seen as a good trend.





In terms of threats on the horizon, insurtech companies and direct writing by mutual as well as by stock companies, are seen as major or minor threats by three out of four agents.



Finally, when asked about in-person visits from insurance company representatives, agents place high value on such visits, with 85% of agents seeing them as extremely important or very important. In addition, 67% of agents acknowledge that the importance of in-person visits has increased as a result of the pandemic.

CONCLUSION

As NAMIC wraps up the third of its key stakeholder surveys, among individual buyers, commercial buyers, and now, independent agents, the findings have demonstrated that mutual companies enjoy a clear advantage. Mutual companies, once defined and understood, have an edge over other insurance companies on many pro-customer dimensions. Stock companies show advantages in only two areas – financial strength and advanced technology – compared to mutual companies, which are clearly seen as having the edge in stakeholder perceptions related to customer service, fair claims settlement, collaboration, communications, and innovation.

A key takeaway from the independent agent survey, as well as the previous stakeholder surveys, is that mutual insurers can be confident in their approach to communication about their companies and the insurance products they provide. The findings are consistent with the fundamental philosophy underpinning mutuality – putting policyholders first – and that philosophy is recognized among and valued by key stakeholders.

MARKET ANALYSIS METHODOLOGY & TECHNICAL NOTES

GENERAL

Insurance companies were assigned to one of three segments based on an internal review conducted by NAMIC and Aon, classifying each insurer as a policyholder-owned “mutual,” a shareholder-owned “stock,” or “other.”[1]

Using financial data for groups and unaffiliated singles as provided by S&P Global’s Market Intelligence and NAMIC, two types of aggregate metrics were calculated for each segment and the three segments as a group: sums for dollar-denominated fields such as premiums and cumulative metrics for ratios such as the net commission expense ratio.

For example, in calculating the cumulative dividend ratio for the mutual segment, the sum of all mutual earned premium was divided by the sum of all mutual dividends to policyholders, where no special weighting was given based on size of a company. This approach allows for a more holistic view of each respective segment.

FURTHER COMMENTS ON NAMIC AND AON’S INTERNAL REVIEW OF COMPANY CLASSIFICATION

Previously, the Benchmark Study for AM Best Rating’s section included an “others” segment; however, due to a limited number of insurers classifying as “other” within AM Best’s database, NAMIC and Aon carefully reviewed each company and reclassified these companies as either “mutual” or “stock” based on the company’s history and operations.

OTHER NOTES

Aggregate combined ratios are the sums of aggregate expense ratios, aggregate loss and loss adjustment expense ratios, and aggregate dividend ratios, rather than weighted averages. Similarly, aggregate operating ratios are the sums of aggregate combined ratios and aggregate investment ratios.

Quarterly data is as of September 3, 2021, and data may later change or be incomplete due to late filers, consolidation issues, amended financials, etc.

Five-year data is representative of all companies operating in 2020. This data will not include any companies that were removed from S&P Global’s Market Intelligence database. For example, Merced P&C will not be included in any of the five-year data even though it operated until 2017.

[1] LLCs, U.S. branch of alien insurers, insurance pool of trusts, and syndicates.

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